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United States

Department of Defense



Results From the Audit of DoD's American Recovery
and Reinvestment Act of 2009 Initial Data Quality
Review Implementation

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Acronyms and Abbreviations

FAR	Federal Acquisition Regulation
OMB	Office of Management and Budget
RATB	Recovery Accountability and Transparency Board
USACE-MP	United States Army Corps of Engineers-Military Programs



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DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

November 3, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER

SUBJECT: Results From the Audit of DOD's American Recovery and Reinvestment Act of 2009 Initial Data Quality Review Implementation
(Report No. D-2010-RAM-002)

We initiated this audit at the request of the Recovery Accountability and Transparency Board. This memorandum provides our audit results on DOD's efforts to establish a process to perform a limited data quality review of reports made by prime recipients of DOD's American Recovery and Reinvestment Act of 2009 funds for the quarter ending September 30, 2009. We will continue to review DOD's progress and issue subsequent memoranda that will discuss our evaluation of DOD's implementation of the Recovery Act.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5886 (DSN 329-5886).

Daniel R. Blair, CPA
Principal Deputy Assistant Inspector General
Defense Business Operations



Results From the Audit of DOD's American Recovery and Reinvestment Act of 2009 Initial Data Quality Review Implementation

What We Did

We initiated this audit at the request of the Recovery Accountability and Transparency Board. Our objective was to determine whether DOD had established processes to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of Recovery Act funds of the need to make appropriate and timely changes; specifically, to review DOD processes for monitoring recipient reporting of Recovery Act funds for the quarter ending September 30, 2009. We also contacted DOD agencies executing DOD Recovery Act funds to understand their processes for performing limited data quality reviews.

What We Found

The first reports from contractor recipients of Recovery Act funds were due October 10, 2009. OMB only issued guidance addressing contractor recipient reports or reporting on September 30, 2009. The required reports also included reports from recipients of grants and cooperative agreements of DOD Recovery Act funds. Federal agencies received guidance addressing grants and cooperative agreement recipient reports or reporting from OMB on June 22, 2009, which gave DOD more than 3 months to establish a well-defined process and policies and procedures to perform limited data quality reviews.

DOD, however, did not have a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. Nor did DOD have specific policies and procedures to perform these tasks. DOD provided us with a high-level description that did not include roles and responsibilities, a detailed description of its methodology, processes to identify material omissions and/or significant reporting errors, or milestones.

For the DOD agencies executing DOD Recovery Act funds, we found that the U.S. Army Corps of Engineers-Military Programs had an established process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. It also had specific policies and procedures to perform these tasks.

Suggested Actions

We recognize that this was DOD's first quarterly effort and that procedures and processes may be refined in future reviews. However, we suggest that DOD establish a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. We also suggest that DOD establish specific policies and procedures to perform these tasks.

Introduction

Objective

The Recovery Accountability and Transparency Board (RATB) requested that the Inspector General community conduct audits to determine whether Federal agencies have established a process to perform limited data quality reviews of recipient reporting of Recovery Act funds for the quarter ending September 30, 2009. Our objective was to determine whether DOD had established processes to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors, and to notify the recipients of the need to make appropriate and timely changes. See Appendix A for a discussion of our scope and methodology.

Background

In passing Public Law 111-5, American Recovery and Reinvestment Act of 2009 (Recovery Act), February 17, 2009, Congress provided supplemental appropriations to preserve and create jobs; promote economic recovery; assist those most affected by the recession; provide investments to increase economic efficiency through technological advances in science and health; and invest in transportation, environmental protection, and other infrastructure. The Recovery Act also established unprecedented efforts to ensure the responsible distribution of funds for the Act's purposes and to provide transparency and accountability of expenditures so that the public would know how, when, and where tax dollars were being spent. Further, the Recovery Act stated that the President and the heads of Federal agencies and departments were to manage and expend the funds made available in the Act to achieve its purpose, which included commencing expenditures for activities as quickly as possible, consistent with prudent management.

Under the Recovery Act Congress appropriated \$7.4 billion to DOD for the following programs: Energy Conservation Investment; Facilities Sustainment, Restoration, and Modernization; Homeowners Assistance Program; Military Construction; and Near Term Energy-Efficient Technologies. DOD Recovery Act funds are executed by other DOD agencies, some of which are U.S. Army Corps of Engineers-Military Programs (USACE-MP), U.S. Army Installation Management Command, Naval Facilities Engineering Command, and the National Guard Bureau.¹ The funds are executed through contracts, grants, and cooperative agreements.

RATB was created with the passing of Public Law 111-5. It is responsible for coordinating and conducting oversight of Federal spending under the Recovery Act to prevent waste, fraud, and abuse. In addition, the RATB established a nationwide data collection system at www.federalreporting.gov for recipients to report the information

¹ Only DOD and USACE-MP responded to our questionnaire regarding a process for implementing data quality reviews of contractor recipient reports.

required by section 1512. RATB will make the information reported by recipients available to the public at www.recovery.gov.

The reporting requirements by recipients of DOD Recovery Act awards and by Federal agencies and department on the use of Recovery Act funds are contained in Public Law, regulations, and Office of Management and Budget (OMB) guidance. Section 1512 of the Recovery Act and related OMB guidance require recipients of Recovery Act funds to report on the use of those funds. Beginning the quarter ending September 30, 2009, prime recipients of Recovery Act awards are required to report the total amount of funds received, the total amount of funds obligated or expended on the projects and activities being funded, the completion status of the projects, and an estimate of the number of jobs created and retained.

Reporting Requirements for Recovery Act Data

Public Law 111-5, American Recovery and Reinvestment Act of 2009 (Recovery Act), February 17, 2009

Section 1512 of the Act requires recipients to report on the use of Recovery Act funds. The Act defines a recipient as any entity that receives Recovery Act funds directly from the Federal Government through contracts, grants, or loans, and includes States that receive funds. The prime recipients of contracts, grants, or loans are required, within 10 days after the end of each calendar quarter (first report due by October 10, 2009), to report the total amount of funds received, funds expended or obligated, description of projects or activities and estimated number of jobs created or retained, and detailed information on any contracts or grants awarded to subrecipients.²

Federal Acquisition Regulation (FAR) Case 2009-009, American Recovery and Reinvestment Act of 2009 (the Recovery Act)—Reporting Requirements [Interim Rule], Federal Register, volume 74, number 60, March 31, 2009

FAR subpart 52.204-11 requires each contractor to report all work funded, in whole or in part, by the Recovery Act for which an invoice is submitted before June 30, 2009. These reports were due no later than July 10, 2009. Thereafter, reports are to be submitted no later than the 10th day after the end of each calendar quarter, using the online reporting tool available at www.federalreporting.gov. The contractor is to report contract and performance data, the contract's purposes and expected outcomes, its employment impact, and other required data.

FAR subpart 4.1501 directs contracting officers to structure contract awards to allow for separately tracking Recovery Act funds and to ensure that the contractor complies with

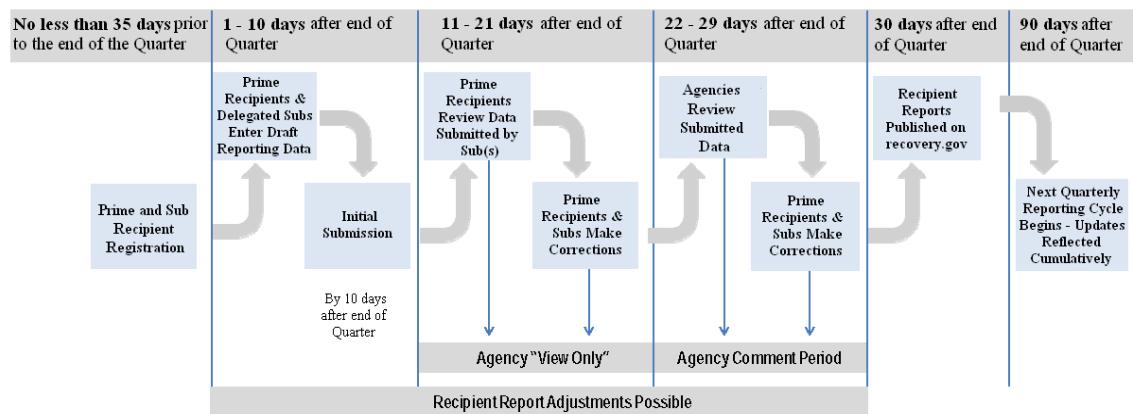
² The prime recipients of contracts, grants, or loans are responsible for reporting the detailed information required by the Federal Funding Accountability and Transparency Act of 2006 on any subcontract or subgrant they award that exceeds \$25,000. The prime recipient can delegate this reporting responsibility to the subrecipient of the contract or grant.

the reporting requirements of FAR clause 52.204-11. Further, FAR subpart 4.1502 requires contracting officers to include FAR clause 52.204-11 in all solicitations and contracts, funded in whole or in part by the Recovery Act, including orders and modifications to existing contracts or orders. However, the interim rule states that contracting officers are not responsible for validating report content, only that the contractor submitted the required report.

OMB Memorandum (M-09-21), “Implementing Guidance for the Reports on the Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009,” June 22, 2009

OMB M-09-21 defines the key activities, milestones, and timeline for the filing of reports by recipients and reviewing the data in the reports by Federal agencies. The guidance applies to all forms of Recovery Act assistance except for Federal contracts and loan guarantees. OMB M-09-21 requires recipients of Recovery Act funds to register at www.federalreporting.gov³ before submitting their reports. Recipients are then required to report on the use of Recovery Act funds no later than the 10th day after the end of each calendar quarter. The reporting and review period is 30 days. See the figure for detailed timelines.

Recipient Reporting Timeline



Source: OMB M-09-21

OMB guidance also requires Federal agencies to develop internal policies and procedures for reviewing reported data and to perform a limited data quality review to identify material omissions and/or significant reporting errors, and to notify the recipients of the need to make appropriate and timely changes. The memorandum defines material omissions as instances where the recipient does not report the required data or reported information is not responsive to the data requests, resulting in significant risk that the public is not fully informed about the status of a Recovery Act project or activity. The memorandum defines significant reporting errors as those instances where the recipient

³ Federalreporting.gov is an online Web portal that will collect all Recovery Act recipient reports. Both recipients and Federal agencies must first register to use the portal to submit or review reports.

does not report required data accurately and such erroneous reporting results in significant risk that the public would be misled or confused by the recipient report.

***OMB Memorandum: Office of Federal Procurement Policy
“Interim Guidance on Reviewing Contractor Reports on the Use
of Recovery Act Funds in Accordance with FAR Clause 52.204-
11,” September 30, 2009***

The OMB interim guidance clarifies the responsibilities of Federal contractors and agency officials regarding Federal contracts that use Recovery Act funds. The guidance requires agencies to review contractor reports to ensure the information provided in the report is consistent with the award. Further, OMB interim guidance stipulates that agencies are to have oversight processes in place to review contractor reports and to conduct limited reviews intended to identify significant errors or material omissions in the reports. The OMB interim guidance provides the same reporting and reviewing timelines and Website as stipulated in OMB M-09-21.

Audit Results

DOD did not have a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. Nor did DOD have specific policies or procedures to perform the data quality reviews. In addition, with the exception of USACE-MP, we could not determine whether DOD agencies executing DOD Recovery Act funds had a well-defined process in place to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. Nor could we determine whether they had specific policies or procedures to perform data quality reviews.

DOD Recovery Act funds are executed through contracts, grants, and cooperative agreements. OMB did not issue guidance addressing limited data quality review of contractors' reports until September 30, 2009. OMB, however, did issue its interim guidance for recipients of grants and cooperative agreements on June 22, 2009, which gave DOD more than 3 months to establish a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes as well as establish specific policies and procedures to perform these tasks.

Observations on DOD's Limited Data Quality Review

DOD did not describe a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. DOD provided only the following high-level description of its process at DOD headquarters:

The Department is using data extracts from FederalReporting.gov and comparing to contract information available on [Federal Procurement Data System] FPDS.gov. The Lead [American Recovery and Reinvestment Act] Coordinator: Deputy Under Secretary of Defense (Resource Issues) in the [Office of Under Secretary of Defense (Comptroller)] holds daily meetings to review the data with the Services, identify gaps in reporting and other errors and have recipients notified of non-reporting or [corrections] required.

Based on the description provided by DOD, we are concerned that this process is not well-defined and may not be sustainable. Secondly, we noted that DOD's description did not include the following:

- the roles and responsibilities of the officials involved, a methodology to address:
 - each phase of the reporting cycle,
 - the review process at the Services,

- the specific reports used in the review, including a description of the type of analysis performed during the review, and
- a description on whether it applied to contracts, grants, or cooperative agreements, or
- the milestones for DOD's plans for further refining its process.

DOD would improve the accuracy and reliability of Recovery Act data by having a well-defined process intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. It would further improve the data by having specific policies and procedures to perform the data quality reviews. In addition, these efforts would improve the transparency of DOD's Recovery Act funding and help provide useful information to the public.

During our audit, we did not conduct a walkthrough of DOD's process because the Department's response was not timely and our audit had a short turnaround time. As a result, we were unable to observe DOD's process for performing limited data quality reviews to identify material omissions and/or significant reporting errors.

From the limited information provided by DOD, we found that the Department did not have specific policies and procedures to perform limited data quality reviews for contracts, grants, and cooperative agreements. DOD stated the following in its response to our questionnaire:

Detail procedures were presented in the weekly working group meeting provided by the Recovery Implementation Office. In addition, there are numerous resources FederalReporting.gov that provide information on all aspects of recipient reporting. No additional policies were needed.

In response to what policies, procedures, or guidance DOD had issued for recipient reporting, DOD responded as follows.

During a regularly scheduled weekly meeting of the Department's Recovery Act workgroup, Deputy Director, Defense Procurement & Acquisition Policy (Strategic Sourcing), [Deputy Under Secretary of Defense] (Acquisitions and Technology) provided a presentation [not attached] on "Agency Report Review and Commenting Overview (including Data Extract)."

The presentation showed timelines and instructions to navigate and comment in www.federalreporting.gov. In addition, during our exit debrief DOD provided e-mails and training presentations that showed a degree of coordination with DOD agencies and contractors.

However, we disagree with DOD's response because having policies and procedures specifically designed to perform limited data quality reviews would improve the Department's ability to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes.

While conducting our audit, OMB issued on September 30, 2009, its interim guidance on reviewing contractors' reports. OMB's interim guidance requires Federal agencies to review reports made by contractors to ensure the information provided in the report is consistent with the award and to have oversight processes in place for reviewing contractor reports and for conducting reviews intended to identify significant errors or material omissions in the reports.

OMB's issuing its guidance so late may have impacted the Department's ability to establish a well-defined process. OMB did, however, issue interim guidance for recipients of grants and cooperative agreements on June 22, 2009. This guidance also requires Federal agencies to develop internal policies and procedures for reviewing reported data and to perform a limited data quality review to identify material omissions and/or significant reporting errors, and to notify the recipients of the need to make appropriate and timely changes. OMB's issuing its guidance on June 22, 2009 gave DOD more than 3 months to establish a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes as well as establish specific policies and procedures to perform these tasks.

We recognize that this was DOD's first quarterly effort to perform a limited data quality review, and procedures and processes may be further refined in future reviews.

Observations on DOD Agencies Executing DOD Recovery Act Funds

DOD agencies execute DOD Recovery Act funds. For example, Naval Facilities Engineering Command delivers facilities engineering and acquisition through public works, capital improvements, and contingency engineering. We contacted those executing agencies for which we had obtained point-of-contact information: Army Installation Management Command, Naval Facilities Engineering Command, and the National Guard Bureau. These agencies received copies of our questionnaire for response. However, they did not respond. As a result, we were unable to determine whether they had established a well-defined process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. Nor could we determine whether they had established specific policies or procedures to perform limited data quality reviews. See Appendix B for a summary of our results.

We also contacted USACE (the DOD design and construction agent for Military Construction) to coordinate meetings with USACE-MP to determine whether it had a process to perform limited data quality reviews.

During our meetings, USACE officials discussed the established process for performing limited data quality reviews intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes. Additionally, we conducted a limited walkthrough at USACE to observe

USACE-MP's data quality review process. We obtained spreadsheets, charts detailing USACE-MP's process and methodology, and other supporting documentation. However, we did not validate the data provided by USACE-MP because it was outside the scope of this audit and our audit turnaround time was short.

USACE had established policies and procedures to perform limited data quality reviews. For example, USACE issued guidance on March 31, 2009 which directs all USACE contracting officers to incorporate FAR clause 52.204-11 in all Recovery Act solicitations and contracts. On July 22, 2009, USACE issued additional guidance addressing recipient report execution.

Suggested Actions

We took into consideration that interim guidance specifically addressing contractor recipient reporting was only issued by OMB on September 30, 2009 – less than 2 weeks before the recipient report was due. Additionally, we recognized that this was DOD's first quarterly effort and procedures and processes may be refined in future reviews. However, for DOD to have a well-defined process intended to identify material omissions and/or significant reporting errors and to notify the recipients of the need to make appropriate and timely changes, and to have specific policies and procedures to perform limited data quality reviews; we suggest the that the Deputy Under Secretary of Defense (Resource Issues) in the Office of the Under Secretary of Defense (Comptroller):

1. Establish and implement a well-defined process for performing a limited data quality review intended to identify material omissions and/or significant reporting errors, and to notify the recipients of the need to make appropriate and timely changes to implement Public Law 111-5, OMB M-09-21, and OMB interim guidance.
2. Establish and implement policies and procedures specifically designed to perform limited data quality reviews of recipient reports as prescribed by OMB M-09-21, and OMB interim guidance.

Appendix A. Scope and Methodology

The audit was initiated by a request from the RATB which called for the Inspector General community to review their Federal agency's process for monitoring recipient reporting of Recovery Act funds for the quarter ending September 30, 2009. We conducted this audit from September 2009 through October 2009 with limited use of generally accepted government auditing standards. For this audit we followed the standards of independence, supervision, evidence, and reporting. Owing to the unique requirements of the Recovery Act, along with time limitations for planning and completing this audit, we did not fully comply with the fieldwork auditing standards for identifying investigations, assessing fraud risk, reviewing internal controls, and identifying data and information system controls.

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe omitting the procedures described above did not limit our ability to conclude on the audit objective to determine whether DOD had established processes to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors in recipient report data and to notify the recipients of the need to make appropriate and timely changes. We believe that the evidence we obtained during our audit provides a reasonable basis for our findings and conclusions.

During the audit, we coordinated with other agencies by attending working group meetings, teleconferences, and providing feedback on Recovery Act limited data quality review related issues. We attended weekly Recovery Act meetings organized by the Under Secretary of Defense (Comptroller) and participated in teleconferences with the RATB and Under Secretary of Defense for Acquisition, Technology, and Logistics. In addition, we coordinated meetings with Under Secretary of Defense (Comptroller) and USACE.

We developed a questionnaire based on criteria established by Public Law 111-5, OMB M-09-21 "Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009," Federal Register, and Federal Acquisition Regulation. We then submitted the questionnaire to Under Secretary of Defense (Comptroller) and requested that it be forwarded to the appropriate points of contact for a response. Additionally, we submitted our questionnaire to USACE-MP, Army Installation Management Command, Naval Facilities Engineering Command, and Naval Guard Bureau to obtain an understanding of their policies, procedures, and processes for performing a limited data quality review of recipient reporting at federalreporting.gov.

For additional contracting guidance, we reviewed OMB "Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with FAR Clause 52.204-11." We also obtained and reviewed DOD's response to our questionnaire as well as all documentation provided in its response. We documented our meeting with

USACE and reviewed its policies and procedures to assess whether USACE had processes, policies, and procedures specifically addressing limited data quality reviews of reports provided by recipients of DOD contracts. In addition, we reviewed USACE charts and spreadsheets related to its process and methodology. We conducted a limited walkthrough at USACE headquarters; however, we did not validate the information we obtained because it was outside the scope of this audit.

Appendix B. Limited Data Quality Review Results

Agency	Response to Questionnaire	Policy/Procedures Specifically Addressing Limited Data Quality Review	Process for Conducting a Limited Data Quality Review.
DOD	Y	N	N
USACE-MP	Y	Y	Y
IMCOM	N	U	U
NAVFAC	N	U	U
NGB	N	U	U

Legend

IMCOM - Army Installation Management Command

NAVFAC - Naval Facilities Engineering Command

NGB - National Guard Bureau

N - Denotes no response provided or no specific policies and procedures or a well-defined process was identified to review reports made by recipients of Recovery Act awards.

U- Denotes unable to make a determination because of a lack of response to questionnaire.

Y - Denotes a response, relevant policies and procedures, and process were provided.



Inspector General Department of Defense